

6. Part 64 Cost Study as of **December 31, 2012, 2013 and 2014.**

Allband has both accounting processes and cost study adjustments that implement assignments required by Part 64. A summary of expense allocation was prepared for this process and filed as an Ex-Parte with the FCC. The attached document describes and summarizes the Part 64 expense compliance process for 2014. For 2012 and 2013, the accounting process for expenses was similar to that described for 2014. The cost study adjustments for non-regulated items, included jointly used investments, for 2012 through 2014 have been provided in response to this request.

Allband Communications, Inc.
Description of Assignments and Allocations to Non-regulated Operations

Introduction

Allband Communications Cooperative (Cooperative) has an affiliate Allband Multimedia (Multimedia). The Cooperative primarily provides regulated telecommunications services. Approximately 75 percent of the total consolidated revenue and over 98 percent of the Cooperative's revenue is from regulated services and universal service support funding. Multimedia provides primarily Internet services to Cooperative customers and other customers outside of the regulated service area. All of the services provided by Multimedia are non-regulated. This document provides a brief overview of the procedures employed for, and a summary of, Allband's calendar year 2014 cost assignments between regulated and non-regulated operations.

Overview of Cost Assignment Procedures

There are three general phases to the cost assignment process. These consist of:

1. Direct Charges – costs that can be directly assigned to the respective affiliate. These costs are generally vendor specific costs that can be assigned based on invoices. Such charges are assigned to the appropriate affiliate in the accounting process.
2. Assignment Based on Direct Analysis – these costs are assigned as part of the accounting process to the respective affiliate, typically based on payroll hours or the number of lines in service.
3. Other Non-Regulated Adjustments – For costs not identified in the accounting process that are joint in nature, the costs are assigned to non-regulated operations as part of the annual jurisdictional cost study process.

Attached is a summary of expense assignments between the Cooperative and Multimedia and a summary of the percentage of costs assigned to regulated operations for major account groupings. Specific account detail is shown. Several of the accounts capture expenses solely related to the Cooperative or Multimedia. Other accounts capture expenses attributable to both entities. The total Cooperative regulated amounts shown on the Attachment serve as the expense bases for cost studies used by NECA and USAC to determine Allband's High Cost Loop Support (HCLS) and Interstate Common Line Support (ICLS).

Summary and Analysis of Allband Expense Assignments

Plant Specific Operations

Direct Charged Expenses - Plant Specific Operations represents \$459,431 of Allband's expenditures. The actual amount of expense recorded on Allband's financials was \$287,279. The expenses were less than expenditures due accounting for the ARRA Grant. This grant is fully funding the placement of transmission facilities that will be used by Multimedia to provide broadband services. While the plant

assets are recorded on the cooperative's books, the net plant is reflected as zero. Essentially, the total plant is recorded in asset accounts along with a contra-account or reserve which results in a net plant balance of zero. Since Allband's cost basis is zero in the grant funded facilities, there is no associated depreciation expense.

Allband's employees are performing work functions to install facilities and services that are ultimately funded from the grant. As shown on the summary, Allband's plant operations generated approximately \$87,000 of payroll and approximately \$86,000 in work equipment expense attributable to the grant in which services are or will be provided by Multimedia. These expenditures are not shown in the expense accounts on Allband's financials, since they were funded by the grant. The grant receipts offset these expenditures and produces a net balance of zero in the financial statement accounts. As shown on the Attachments, \$181,788 of the direct charged expenditures were attributable to the Cooperative and \$277,644 were attributable to Multimedia. Thus, for Plant Specific Operations expenditures, approximately 40 percent were assignable to the Cooperative and 60 percent assignable to Multimedia.

Table 1 below key types of expenses that were direct charged or assigned to the respective affiliates.

Table 1 – Examples of Plant Specific Operations Expenses Direct Charged

Account	Description	Example/Explanation of Key Expenses
6121	Land and Building Expense	Charged with expenses associated with the central office building that serves the Robbs Creek exchange or the Cooperative's regulated service area
6121.2	Building Rent	Represents rent expense associated with the general office building (this is further assigned as part of the annual cost study process and is discussed below)
6212	Digital Electronic Expense	Contains the expenses associated with the switch employed for the Cooperative's regulated voice services
6232	Circuit Equipment Expense	Contains the expenses associated with transmission of the Cooperative's regulated voice services.
6232.2	Access Charge	The Cooperative access charge is primarily associated with the costs of right of way access. The Multimedia amounts predominantly represent back-haul charges and ISP service charges. The expenses associated the VOIP underlying carrier for Multimedia's voice services are charged to this account.
6362.1	Network Monitoring	Contains the expenses associated for the monitoring of non-regulated Internet services transmitted on the Cooperative's network.
6362.11	Toll Resale	Contains the expenses associated with wholesale long distance charges on both the regulated and non-regulated voice services. Allband uses separate vendors for each of the entities.

Expenses Assigned Based on Direct Analysis - Payroll expenses and related clearings, described below, are assigned based on payroll hours. Plant employees report time to account codes on time sheets. This enables assignment of the respective payroll costs to the appropriate account. As mentioned

previously, a significant portion of payroll normally associated with plant specific operations expenses were associated with the project funded by the grant.

Other Non-regulated Adjustments - As part of the annual cost study process, expenses associated with general support assets and building rents are assigned to non-regulated operations, including Multimedia. These adjustments are shown in the column labeled "Other NonReg Adj." Most of the plant specific expenses assigned by this process is associated with the general office building rent. Generally, these assignments are based on an analysis of payroll hours.

As shown on the Attachment, the overall percentage of Plant Specific Operations expenses assigned to regulated operations is 38 percent.

Network Operations Expense

Direct Charged Expenses - Table 2 contains examples of major direct charged expenses for Network Operations Expense accounts.

Table 2 – Examples of Network Operations Expenses Direct Charged

Account	Description	Example/Explanation of Key Expenses
6531	Power Expense	Contains the power expense for the Cooperative's buildings and remotes. (A portion of these expenses are assigned as part of the annual cost study process and is discussed below)
6532	Network Administration	Primarily includes charges for National Emergency System and support contract for the Cooperative's network equipment. Also includes vendor specific charges associated with network administration.
6534	Plant Operations	Includes costs of supplies that support the Cooperative's plant operations
6535	Engineering Expense	Contains Engineering expenses incurred by the Cooperative from outside contractors
6540	Access Expense	The portion assigned to the Cooperative represents required contributions to the universal service. Access expense for Multimedia represents the amount of NECA access charges assessed by the Cooperative to Multimedia for DSL services

As shown on the Attachment, \$89,067 of direct charges for Network Operations Expense is charged to the Cooperative and \$34,830 is charged to Multimedia.

Expenses Assigned Based on Direct Analysis - The major portion of plant operations is payroll related. Allband personnel track time and prepare time sheets which enables the assignment of payroll related costs to the appropriate affiliate. Payroll costs are assigned to the appropriate account. For account 6534, Plant Operations expense, the costs are assigned to the Cooperative and Multimedia based on the

respective lines in service. For Network Operations expenses assigned as described above, \$51,294 or 38% are related to the Cooperative and \$83,210 or 62% are related to Multimedia.

Other Non-regulated Adjustments – A portion of Account 6531, Power Expenses is assigned to non-regulated operations based on an analysis of the vendor billing amounts attributable to regulated and non-regulated operations. The adjustment for this account is shown in the column labeled "OTHER NONREG ADJ."

As shown on the Attachment, the overall percentage on Network Operations Expense assigned to regulated services is 45 percent.

Plant Nonspecific Operations Expenses

This account, excluding depreciation expense, does not contain a significant amount of dollars. The total balance for 2014 was approximately \$3,500. Motor Vehicles expenses are initially direct charged to the Cooperative; however, these expense are ultimately cleared to other accounts based on payroll hours. Motor Vehicles expenses are cleared to the follow major accounts: Plant Specific Operations, Network Operations, Customer Operations and Corporate Operations

The majority of the account balance represents amortization expenses of \$2,750 that are attributable to loan origination fees of the Cooperative. These costs are being amortized over 18 years. This expense is fully attributable to the Cooperative. Due to this, a significant portion or 94 percent of the Plant Nonspecific Operations expense is assigned to regulated operations as shown on the Attachment.

Depreciation Expenses

Direct Charged Expenses - All of the depreciation expense is associated with assets for the Cooperative. This is for depreciation of investment in facilities employed to serve cooperative customers and is predominantly used to provide regulated services. Multimedia does not own any assets. While the Cooperative owns the assets used by Multimedia to serve its customers, there is no cost basis in these assets, since they were 100 percent funded with grants. As explained above, in the accounting records, the assets' original costs are netted against a contra-accounts which results in zero investments on the books. Consequently, there is no depreciation expense associated with the assets.

Other Non-regulated Adjustments - An adjustment is made in the annual cost study which assigns approximately 22 percent of the annual depreciation expense associated with general support assets of the Cooperative to non-regulated operations.

Due to the circumstances described above and as shown on the Attachment, 98 percent of the depreciation expenses are attributable to regulated services.

Customer Operations Expenses

Direct Charged Expenses - Table 3 below provides examples of the major types of expenses directly accounted for as Customer Operations Expenses.

Table 3 – Examples of Customer Operations Expenses Direct Charged

Account	Description	Example/Explanation of Key Expenses
6613	Advertising	Contains vendor specific advertising and marketing costs.
6622	Number Services	Contains vendor specific costs associated with number services expense. Allband uses separate vendors for each of the entities.
6623	Customer Services	Contains vendor specific costs for customer service support.

Expenses Assigned Based on Direct Analysis - A major portion of customer service expenses are payroll related and assigned to the accounts based on the relative payroll hours. Approximately 74% of the customer service payroll hours were attributable to Multimedia in 2014.

The composite percentage of Customer Service Expense assigned to regulated operations in 2014, as shown on the Attachment, was 49 percent.

Corporate Operations Expenses

Direct Charged Expenses - Table 4 below provides examples of the major types of corporate operations expenses directly chargeable to the affiliates.

Table 4 – Examples of Corporate Operations Expenses Direct Charged

Account	Description	Example/Explanation of Key Expenses
6711	Executive	Executive expense is all payroll related and in 2014 there were no direct charges.
6720	General and Administrative	Primarily contains association membership dues, software subscriptions and travel expenses. (A portion of these expenses are assigned as part of the annual cost study process and is discussed below)
6721	Accounting/Finance	Contains the costs of the annual financial audit required by RUS.
6722	Cost Study Expense	This account contains expenses associated with preparation of the annual cost study and other regulatory compliance services provided by consultants. All of this expense is assignable to Cooperative's regulated services.

6725	Legal	Legal costs of outside counsel for representation before the courts and regulators. All legal representation was for issues solely attributable to the Cooperative.
6728	Insurance	Contains direct insurance costs related to the Cooperative's assets and employees. (A portion of these expenses are assigned as part of the annual cost study process and is discussed below)

Expenses Assigned Based on Direct Analysis - Payroll related costs and clearings are assigned to the affiliates based on Payroll hours. The Company's managers track and report their time that is attributable to each affiliate by account. All management employees direct report their work hours on time sheets. The majority of time spent by management and accounting/finance personnel are attributable to regulatory compliance and other regulatory issues of the Cooperative.

Other Non-regulated Adjustments – A portion of the direct general and administrative expenses contained in Account 6720 are assigned to non-regulated operations based on payroll hours. Additionally, a portion of Account 6728, Insurance Expense is assigned to non-regulated operation based on payroll hours.

As shown on the Attachment 92% of the corporate expenses are attributable to regulated operations.

Other Operating Taxes

Other Non-regulated Adjustments – These taxes represent property taxes assessed to the Cooperative. A portion is assigned to non-regulated operations based on an analysis of property tax assessments. This assignment is shown in the column labeled "OTHER NONREG ADJ."

As shown on the Attachment 74% of the Other Operating Taxes are attributable to regulated operations.

ALLBAND - ACCOUNTING FOR AFFILIATES AND REGULATED OPERATIONS

2014

ACCOUNT	DESCRIPTION	DIRECT CHARGED EXPENSES			EXPENSES ASSIGNED BASED ON DIRECT ANALYSIS					TOTAL ACCOUNTING EXPENSES			OTHER NONREG ADJ.	COOPERATIVE REGULATED	% Regulated
		COOPERATIVE	MULTIMEDIA	TOTAL	COOPERATIVE	MULTIMEDIA	GRANT	TOTAL	ASSIGNMENT BASIS	COOPERATIVE	MULTIMEDIA	TOTAL			
5000.0	COST OF GOODS SOLD	3,360.50	11,376.23	14,736.73						3,360.50	11,376.23	14,736.73	(3,360.50)	-	0%
600X	PAYROLL & BENEFITS	-	86,937.74	86,937.74			(86,937.74)	(86,937.74)		-			-	-	
6114	OTHER WORK EQUIPMENT EXPENSE	-	86,156.57	86,156.57		15.75	(86,156.57)	(86,140.82)	Payroll Hours	-	15.75	15.75	-	-	
6121	LAND AND BUILDING EXPENSE	20,781.46		20,781.46	77.81			77.81	Payroll Hours	20,859.27	-	20,859.27	(279.38)	20,579.89	
6121.2	BUILDING RENT	74,642.52		74,642.52				-		74,642.52	-	74,642.52	(24,040.04)	50,602.48	
6124	GENERAL PURPOSE COMPUTER EXPENSE	542.91		542.91				-		542.91	-	542.91	(174.85)	368.06	
6212	DIGITAL ELECTRONIC EXPENSE	15,679.00		15,679.00				-		15,679.00	-	15,679.00		15,679.00	
6232	CIRCUIT EQUIPMENT EXPENSE	14,402.94		14,402.94				-		14,402.94	-	14,402.94		14,402.94	
6232.2	ACCESS CHARGE	6,743.19	84,490.31	91,233.50				-		6,743.19	84,490.31	91,233.50		6,743.19	
6362.1	NETWORK MONITORING	7,200.01		7,200.01	393.07			393.07	Payroll Hours	7,593.08	-	7,593.08	(7,593.08)	-	
6362.11	TOLL RESALE	41,795.79	19,568.00	61,363.79				-		41,795.79	19,568.00	61,363.79	(41,795.79)	-	
6422	FIBER OPTIC CABLE EXPENSE	-		-	390.34			390.34	Payroll Hours	390.34	-	390.34		390.34	
6423	BURIED CABLE EXPENSE	-	491.01	491.01	64.40			64.40	Payroll Hours	64.40	491.01	555.41		64.40	
	PLANT SPECIFIC OPERATIONS	181,787.82	277,843.63	459,631.45	925.62	15.75	(173,094.31)	(172,152.94)	-	182,713.44	104,565.07	287,278.51	(73,883.14)	108,830.30	38%
6531	POWER EXPENSE	18,774.93		18,774.93				-		18,774.93	-	18,774.93	(5,160.32)	13,614.61	
6532	NETWORK ADMINISTRATION EXPENSE	17,650.61		17,650.61	25,885.77	14.55		25,900.32	Payroll Hours	43,536.38	14.55	43,550.93		43,536.38	
6534	PLANT OPERATIONS ADMIN EXPENSE	7,973.35		7,973.35	12,883.99	82,375.70		95,259.69	Payroll/Lines in Service	20,857.34	82,375.70	103,233.04		20,857.34	
6535	ENGINEERING EXPENSE	9,327.47		9,327.47	12,524.82	820.24		13,345.06	Payroll Hours	21,852.29	820.24	22,672.53		21,852.29	
6540	ACCESS EXPENSE	35,340.32	34,830.32	70,170.64				-		500.00	34,840.32	35,340.32		500.00	
	NETWORK OPERATIONS EXPENSE	89,056.68	34,830.32	123,887.00	51,294.58	83,210.49		134,505.07		105,520.94	118,050.61	223,571.75	(5,160.32)	100,360.62	45%
6561.2112	MOTOR VEHICLES	42,093.26		42,093.26	(42,093.26)	34.10		(42,059.16)	Payroll Hours	-	34.10	34.10	-	-	
6561.24231	BURIED DROPS	142.41	-	142.41	423.98	184.78		608.76	Payroll Hours	566.39	184.78	751.17		566.39	
6565	AMORTIZATION EXPENSE	2,750.00		2,750.00				-		2,750.00	-	2,750.00		2,750.00	
	PLANT NONSPECIFIC OPERATIONS	44,985.67	-	44,985.67	(41,669.28)	218.88		(41,450.40)		3,316.39	218.88	3,535.27		3,316.39	94%
	DEPRECIATION	371,688.94		371,688.94				-		371,688.94	-	371,688.94	(7,202.78)	364,486.16	98%
6613	ADVERTISING EXPENSE	6,069.95	174.94	6,244.90	2,178.48	12,243.24		14,421.72	Payroll Hours	8,248.44	12,418.18	20,666.62		8,248.44	
6622	NUMBER SERVICES	1,022.05	1,222.72	2,244.77				-		1,022.05	1,222.72	2,244.77		1,022.05	
6623	CUSTOMER SERVICE EXPENSE	38,448.09	10,574.52	49,022.61	25,159.26	50,504.94		75,664.20	Payroll Hours	63,607.35	61,078.46	124,685.81		63,607.35	
	CUSTOMER OPERATIONS	45,540.10	11,972.18	57,512.28	27,337.74	62,748.18		90,085.92		72,877.84	74,720.35	147,598.20		72,877.84	49%
6711	EXECUTIVE	-		-	66,950.21	843.61		67,793.82	Payroll Hours	66,950.21	843.61	67,793.82		66,950.21	
6720	GENERAL AND ADMIN EXPENSE	26,926.18	223.10	27,149.28	56,490.35	6,520.07		63,010.42	Payroll Hours	83,416.53	6,743.17	90,159.70	(7,251.62)	76,164.91	
6721	ACCT/FINANCE	20,829.99		20,829.99	36,505.58	546.02		37,051.60	Payroll Hours	57,335.57	546.02	57,881.59		57,335.57	
6722	COST STUDY EXPENSE	42,535.00		42,535.00				-		42,535.00	-	42,535.00		42,535.00	
6725	LEGAL	35,948.25		35,948.25	3,533.93			3,533.93	Payroll Hours	39,482.18	-	39,482.18		39,482.18	
6728	INSURANCE EXPENSE	20,704.00		20,704.00				-		20,704.00	-	20,704.00	(9,109.75)	11,594.24	
	CORPORATE OPERATIONS	146,943.42	223.10	147,166.52	163,480.07	7,909.70		171,389.77		310,423.49	8,132.80	318,556.29	(16,361.38)	294,062.11	92%
	TOTAL OPERATING EXPENSES (Pre-Tax)	883,373.13	336,045.46	1,219,418.59	201,368.73	154,103.00	(173,094.31)	182,377.42	-	1,049,901.54	317,064.15	1,366,965.69	(105,968.12)	943,933.42	69%
7240	OTHER OPERATING TAXES				158,323.20			158,323.20		158,323.20	-	158,323.20	(41,558.00)	116,765.20	74%